NYE-DT 32

COWEN AND COMPANY

Oil & Gas Exploration & Production: Exploration & Production

Apache Corporation

Equity Research

Quick Take: Company Update

September 7, 2016

Price: $51.67 (09/6/2016)
Price Target: $56.00

MARKET PERFORM (2)

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Key Data

Symbol	NYSE: APA
Market Cap (MM)	$19,604.8

Alpine High

The Cowen Insight

Positive. APA announced the new Alpine High rich gas (~1300 BTU) play in the S Delaware. The wells have strong economics compared to APA's current US portfolio with returns comparable to other Tier 1 rich gas plays in our view. Infrastructure is the main constraint with APA not able to sell gas until 2H17. This play adds ~$3/sh to our NAV since we were already including some value for S Delaware.

- Apache announced the discovery of the "Alpine High" which is located primarily in Reeves County of the Southern Delaware basin. This is primarily a wet gas play with an estimated resource potential of 75 TCF and 3 Bn bbls of oil in the Barnett and Woodford regions. The play covers 307,000 contiguous gross acres. This area was previously tested by industry for dry gas many years ago.

- The company has boosted its capex guidance by $200mm to ~$2 Bn in order to reflect activity in this area and anticipates well costs to range from $4 - $6mm for 4,100 ft. laterals. The company anticipates a 4-5 rig program initially. 19 wells have currently been drilled in the play with an estimated 2k – 3k additional locations expected for future development. APA estimates that the Woodford and Barnett can support a 6-rig program for over 20 years.

- Well results from the Woodford and Barnett have shown 24-hour IP rates of as high as 17,068 mcf/d at the Mont Blanc 1H well in Woodford with the lowest well, the Ortler 1H, producing 1,752 mcf/d. At least four other wells have reported production in the range of 6,484-7,122 mcf/d. EURs are currently estimated between 1,100-2,700 Mboe.

- A key setback in this region is the lack of gas processing capacity available. The firm plans to address this concern by installing temporary infrastructure in 2H16. APA notes that this play has been largely misunderstood by peers with a richer gas mix as well as a comparatively low clay content of 10% - 20%. A positive facet of well results in the Alpine High are declining water rates which act as a positive catalyst for operating expenses. We believe the industry has focused on oily positions in Permian rather than rich natural gas plays.

Please see pages 2 to 5 of this report for important disclosures.

Valuation Methodology And Risks

Valuation Methodology

Exploration & Production:

Our valuation methodology may include two approaches: a relative value approach or an intrinsic value approach. Our relative value approach relies upon P/CF and EV/EBITDA as the most relevant metrics. Our intrinsic value approach utilizes discounted cash flow (DCF) methodology as well as our sum-of-the-parts NAV analysis, which values a company based on its proved reserves, unproved resources and selected balance sheet items. Key assumptions underlying our DCF/NAV analysis include an asset's development timeline, prospectivity and differentials and each well's development costs, initial rates, operating costs and ultimate recovery.

Investment Risks

Exploration & Production:

The oil and gas exploration and production industry is one of the most volatile and unpredictable industries in the economy. The industry's key investment risk is its exposure to oil and gas prices, whose price and volatility are affected by expectations of the strength of the global economy and world's demand for energy. While crude oil is a global market, the natural gas market in North America is more regional in nature and is thus more exposed to market fundamentals in the United States, Canada and Mexico.

The E&P industry has recently undergone a technological shift as unconventional drilling has become more prevalent. Since unconventional drilling and fracturing are recent developments, uncertainty concerning the regulation of these practices presents an investment risk. Environmental concerns relating to waste water disposal and drilling regulations on the state and federal level present risks that may reduce the value of a company's proven or potential reserves. A recent USGS study pointed to an increase in earthquakes caused by waste water disposal. Additionally, the EPA recently issued restrictions on fracking on federal land. Increasing regulation of offshore drilling activities also presents an investment risk in the wake of the BP Macondo disaster.

In Canada the E&P industry is seasonal due to the spring break-up, which is when the ground frost melts and local authorities restrict heavy equipment on the roads and highways. The duration of spring break-up is weather dependent and it annually varies in duration. The length of spring break-up directly impacts an operator's ability to grow production.

Risks To The Price Target

Our price target is based off an EV/EBITDAx multiple, material differences in performance based on operations and/or pricing may impact our price target.

Apache operates in Egypt, where geopolitical tensions are a concern. Operations have not been interrupted to date, but remain in a higher risk area relative to other industry operations

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
APA	Apache Corporation

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Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

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Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Equity Research Rating Distribution

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/16

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	440	59.22%	69	15.68%
Hold (b)	293	39.43%	13	4.44%
Sell (c)	10	1.35%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's equity research rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's equity research ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's equity research ratings definitions. Cowen and Company Equity Research Rating Distribution Table does not include any company for which the equity research rating is currently suspended or any debt security followed by Cowen Credit Research and Trading.

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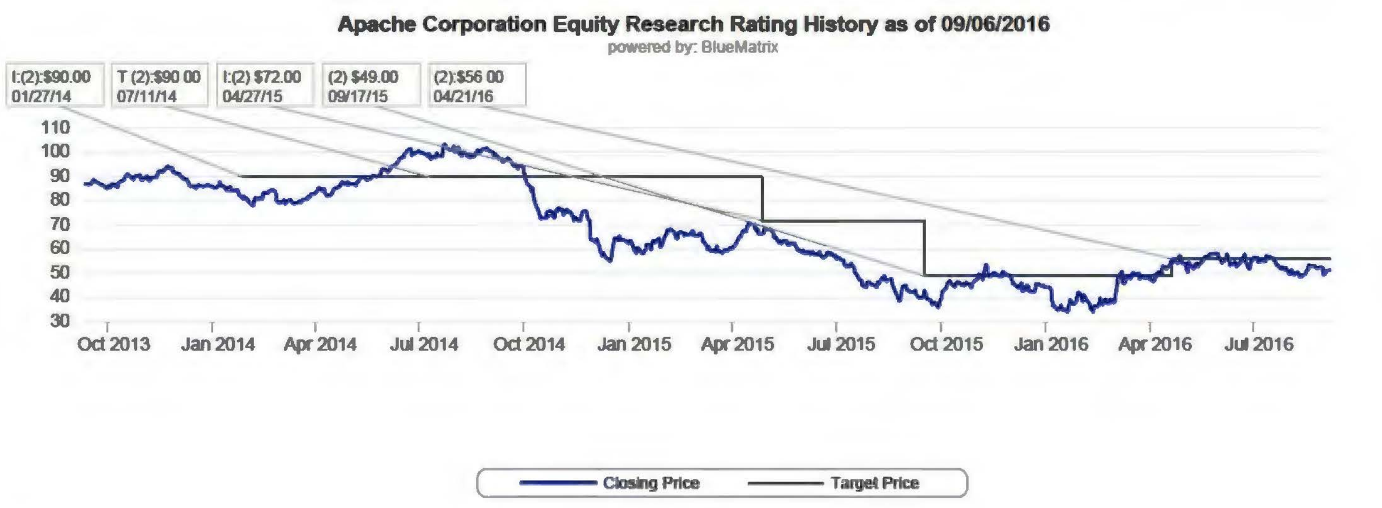

Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available | S=Suspended

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